

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of Menominee, Michigan	County Menominee
Fiscal Year End 6/30/06	Date Audit Report Submitted to State 12/29/06		

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Kerber, Rose and Associates, S.C.		Telephone Number (715) 735-9321	
Street Address 1727 Stephenson St		City Marinette	State WI
		Zip 54143	
Authorizing CPA Signature 		Printed Name Bradley Walters	License Number 1101013321

CITY OF MENOMINEE, MICHIGAN

Annual Financial Report

June 30, 2006

CITY OF MENOMINEE, MICHIGAN

Table of Contents

June 30, 2006

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1 – 2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3 – 8
BASIC FINANCIAL STATEMENTS:	
Government-Wide:	
Statement of Net Assets	9
Statement of Activities	10 – 11
Fund:	
Balance Sheet – Governmental Funds	12 – 13
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	14 – 15
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities	16
Statement of Net Assets – Proprietary Funds	17 – 18
Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds	19 – 20
Statement of Cash Flows – Proprietary Funds	21 – 22
Statement of Net Assets – Fiduciary Funds	23
Statement of Changes in Net Assets – Fiduciary Funds	24
Notes to the Basic Financial Statements	25 – 52
REQUIRED SUPPLEMENTARY INFORMATION:	
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund	53 – 54
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Major Streets Fund	55
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Local Streets Fund	56
Notes to Budgetary Comparison Schedules	57

CITY OF MENOMINEE, MICHIGAN

Table of Contents (Continued)

June 30, 2006

	<u>Page</u>
SUPPLEMENTARY INFORMATION:	
Combining Balance Sheet – Nonmajor Governmental Funds	58 – 59
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	60 – 61
Detailed Comparison of Budgeted and Actual Revenues – General Fund	62 – 63
Detailed Comparison of Budgeted and Actual Expenditures – General Fund	64 – 71
Combining Statement of Net Assets – Nonmajor Proprietary Funds	72
Combining Statement of Revenues, Expenses and Changes in Net Assets – Nonmajor Proprietary Funds	73
Combining Statement of Cash Flows – Nonmajor Proprietary Funds	74
Combining Statement of Net Assets – Employee Trust Fund	75
Combining Statement of Changes in Net Assets – Employee Trust Fund	76
ADDITIONAL INDEPENDENT AUDITORS' REPORTS:	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	77 – 78
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	79 – 80
FEDERAL AWARDS SECTION:	
Schedule of Expenditures of Federal Awards	81 – 82
Schedule of Findings	83
Schedule of Prior Year Audit Findings and Corrective Action Plan	84



KERBER, ROSE & ASSOCIATES, S.C.

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Members of the City Council
City of Menominee
Menominee, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Menominee, Michigan, (City) as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Menominee as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2006, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Honorable Mayor and Common Council
City of Menominee, Michigan

The management's discussion and analysis and budgetary comparison information on pages 3 through 8 and 53 through 57 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods or measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Menominee's basic financial statements. The supplementary information identified in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The supplementary information and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Kerber, Rose & Associates, S.C.".

KERBER, ROSE & ASSOCIATES, S.C.

Certified Public Accountants

December 14, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF MENOMINEE, MICHIGAN
Management's Discussion and Analysis
For the Year Ended June 30, 2006

As management of the City of Menominee, we offer readers of the City's financial statements this overview of the financial activities of the City of Menominee for the fiscal year ended June 30, 2006. Please read it in conjunction with the City's financial statements, which begin on page 9.

FINANCIAL HIGHLIGHTS

- The assets of the City of Menominee exceeded the liabilities as of June 30, 2006 by \$50,728,816 (net assets). Of this amount, \$4,240,720 were unrestricted net assets. The net assets for government activities were \$29,727,769 and for business-type activities \$21,001,047.
- The total net assets increased by \$1,064,960 during the fiscal year.
- The general fund balance is \$973,819 with \$245,041 reserved and \$728,778 unreserved. Of the unreserved fund balance, \$277,793 is designated and \$450,985 is undesignated, or approximately 14 percent of the anticipated general fund expenditures for 2006-2007 fiscal year.
- The General Obligation Debt decreased by \$1,239,906 during fiscal year 2006.
- The Capital Assets increased by \$1,389,127 net of depreciation during the fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

1. **Government-wide Financial Statements.**

The government-wide financial statements (pages 9-11) provide readers with a broad overview of the finances of the City of Menominee, in a manner similar to a private sector business.

The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of the City's financial position.

The Statement of Net Assets shows the restricted net assets and unrestricted net assets. The unrestricted assets are the assets that can be spent under City government's discretion. The restricted assets are the assets that are constrained by external regulations on how they may be used, such as debt covenants, enabling legislation, or other legal requirements, and they can not be spent under City's discretion. The City's total unrestricted net assets were \$4,240,720 at fiscal year end June 30, 2006, with the majority in the governmental type activities.

The largest portion of the net assets for the business-type activities is the investment in capital assets (i.e., land, buildings, machinery and equipment, and infrastructure), less any related debt used to purchase those assets that is still outstanding. The City uses these capital assets to provide services to citizens. These assets are not available for future spending.

CITY OF MENOMINEE, MICHIGAN
Management's Discussion and Analysis
For the Year Ended June 30, 2006

CITY OF MENOMINEE NET ASSETS

	Governmental Activities		Business-Type Activities		Totals	
	2006	2005	2006	2005	2006	2005
ASSETS:						
Current and Other Assets	\$ 6,282,718	\$ 7,573,792	\$ 2,916,302	\$ 3,025,224	\$ 9,199,020	\$ 10,599,016
Capital Assets	29,306,413	26,237,231	22,096,814	22,444,200	51,403,227	48,681,431
Total Assets	<u>35,589,131</u>	<u>33,811,023</u>	<u>25,013,116</u>	<u>25,469,424</u>	<u>60,602,247</u>	<u>59,280,447</u>
LIABILITIES:						
Long-Term Liabilities						
Outstanding	5,226,384	5,410,257	3,612,726	4,043,681	8,839,110	9,453,938
Current and Other Liabilities	634,978	1,021,237	399,343	474,085	1,034,321	1,495,322
Total Liabilities	<u>5,861,362</u>	<u>6,431,494</u>	<u>4,012,069</u>	<u>4,517,766</u>	<u>9,873,431</u>	<u>10,949,260</u>
NET ASSETS:						
Invested in Capital Assets Net of Related Debt	24,339,362	21,061,228	18,526,525	17,501,619	42,865,887	38,562,847
Restricted	2,656,117	3,066,234	966,092	1,575,610	3,622,209	4,641,844
Unrestricted	<u>2,732,290</u>	<u>3,252,067</u>	<u>1,508,430</u>	<u>1,874,429</u>	<u>4,240,720</u>	<u>5,126,496</u>
Total Net Assets	<u>\$ 29,727,769</u>	<u>\$ 27,379,529</u>	<u>\$ 21,001,047</u>	<u>\$ 20,951,658</u>	<u>\$ 50,728,816</u>	<u>\$ 48,331,187</u>

Assets exceed liabilities by \$50,728,816 at June 30, 2006.

Assets exceeded liabilities by \$48,331,187 at June 30, 2005.

The Statement of Activities presents information showing how the City's net assets changed during the fiscal year. All changes for net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the terms of related cash flows. The net assets increased by \$1,064,960.

In the Statement of Net Assets and the Statement of Activities, the City is divided into two kinds of activities: Governmental activities and Business-type activities.

The governmental activities of the City of Menominee include police, fire, public works, parks, recreation, and general administration. Property taxes, state shared revenue, and state and federal grants finance most of the activities. Also, all the special revenue funds, debt service funds, capital project funds, and permanent funds are also included here.

The business-type activities include Water Treatment Utility, Wastewater Treatment Utility, Marina, River Park, and Industrial Aid. The City charges a fee to customers to help it cover the cost of certain services it provides.

CITY OF MENOMINEE, MICHIGAN
Management's Discussion and Analysis
For the Year Ended June 30, 2006

CITY OF MENOMINEE STATEMENT OF ACTIVITIES

	Governmental Activities		Business-Type Activities		Totals	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program Revenue	\$ 497,947	\$ 612,155	\$ 2,829,081	\$ 2,997,083	\$ 3,327,028	\$ 3,609,238
Operating Grants and Contributions	1,117,634	1,258,693	-	-	1,117,634	1,258,693
Capital Grants and Contributions	1,179,877	570,812	-	8,183	1,179,877	578,995
General Revenues:						
Property Taxes	3,633,219	3,496,520	-	-	3,633,219	3,496,520
State and Federal Aids Not Restricted to Specific Functions	1,175,004	1,192,088	-	-	1,175,004	1,192,088
Interest and Investment Earnings	156,844	149,730	94,841	47,196	251,685	196,926
Gain on Repossession Of Assets	-	-	29,702	-	29,702	-
Other	660,834	73,079	-	(29,725)	660,834	43,354
Total Revenues	<u>8,421,359</u>	<u>7,353,077</u>	<u>2,953,624</u>	<u>3,022,737</u>	<u>11,374,983</u>	<u>10,375,814</u>
Expenses:						
General Government	903,922	878,226	-	-	903,922	878,226
Public Safety	2,720,622	2,686,560	-	-	2,720,622	2,686,560
Public Works	2,101,172	2,450,234	-	-	2,101,172	2,450,234
Culture and Recreation	1,061,967	987,266	-	-	1,061,967	987,266
Other	416,522	116,497	-	-	416,522	116,497
Interest and Fiscal Charges	201,583	197,913	-	-	201,583	197,913
Water Treatment	-	-	937,449	910,457	937,449	910,457
Wastewater Treatment	-	-	1,141,641	1,146,322	1,141,641	1,146,322
Marina	-	-	725,948	555,670	725,948	555,670
River Park	-	-	99,197	106,649	99,197	106,649
Industrial Aid	-	-	-	336	-	336
Total Expenses	<u>7,405,788</u>	<u>7,316,696</u>	<u>2,904,235</u>	<u>2,719,434</u>	<u>10,310,023</u>	<u>10,036,130</u>
Change (Increase in Net Assets)	<u>1,015,571</u>	<u>36,381</u>	<u>49,389</u>	<u>303,303</u>	<u>1,064,960</u>	<u>339,684</u>
Net Assets – July 1	27,379,529	27,343,148	20,951,658	20,648,355	48,331,187	47,991,503
Correction to Restate Capital Assets	<u>1,332,669</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,332,669</u>	<u>-</u>
Net Assets – Beginning of Year as Restated	<u>28,712,198</u>	<u>27,343,148</u>	<u>20,951,658</u>	<u>20,648,355</u>	<u>49,663,856</u>	<u>47,991,503</u>
Net Assets – End of Year	<u>\$ 29,727,769</u>	<u>\$ 27,279,529</u>	<u>\$ 21,001,047</u>	<u>\$ 20,951,658</u>	<u>\$ 50,728,816</u>	<u>\$ 48,331,187</u>

CITY OF MENOMINEE, MICHIGAN
Management's Discussion and Analysis
For the Year Ended June 30, 2006

2. Fund Financial Statements

The Fund Financial Statements begin on page 15 and provide detailed information about the most significant funds - not the City as a whole. The City has three kinds of funds: Governmental, Proprietary, and Fiduciary Funds.

Governmental Funds. Governmental funds financial statements focus on near-term inflows and outflow of spendable resources. Such information is useful in assessing the City's financial requirements. Unreserved fund balance may serve as a useful measure of the city's net resources available for spending at the end of 2006 fiscal year. The unreserved funds are the funds that can be spent under management's discretion.

At fiscal year end June 30, 2006, the City's governmental funds reported a combined ending fund balance of \$5,210,218.

The General Fund is the chief operating fund of the City. At the fiscal year end, its unreserved fund balance was \$728,778. Among the unreserved funds, \$277,793 was designated by management for future projects. A healthy, unrestricted fund balance is necessary for a sound and responsible financial management system. The City needs the unreserved funds to meet emergency needs, general interest revenues through investments, and to maintain the City's bond rating. The principal use of the unreserved funds is to avoid short term borrowing due to cash flow shortages.

Proprietary Funds. Proprietary funds provide the same type of information found in the government-wide financial statements, only in more detail. For the proprietary funds, unrestricted net assets of the Water Treatment Utility at the fiscal year end amounted to \$435,831, for the Wastewater Treatment Utility they amounted to \$484,300, and for the Marina they amounted to \$285,385.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City of Menominee's programs.

CITY OF MENOMINEE, MICHIGAN
Management's Discussion and Analysis
For the Year Ended June 30, 2006

General Fund Budgetary Highlights

The City amended its budget during the fiscal year as shown in the following chart:

CITY OF MENOMINEE BUDGET					
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Budget Revisions</u>	<u>2005 - 2006 Actual</u>	<u>Under (Over)</u>
General Fund:					
Revenues	\$ 4,514,565	\$ 4,570,185	\$ 55,620	\$ 4,798,722	\$ 228,537
Expenditure	4,423,414	4,756,530	(333,116)	4,628,153	128,377
Transfers In/Out	(193,097)	(316,639)	(123,542)	(483,875)	(167,236)
Difference	<u>\$ (101,946)</u>	<u>\$ (502,984)</u>	<u>\$ (401,038)</u>	<u>\$ (313,306)</u>	<u>\$ 189,678</u>
Major Streets:					
Revenues	670,000	670,000	-	1,316,049	646,049
Expenditures	1,813,500	1,813,500	-	1,316,691	496,809
Transfers In/Out	1,143,500	1,143,500	-	46,593	(1,096,907)
Difference	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 45,951</u>	<u>\$ 45,951</u>
Local Streets:					
Revenues	\$ 187,000	\$ 187,000	\$ -	\$ 198,026	\$ 11,026
Expenditures	473,500	473,500	-	264,857	208,643
Transfers In/Out	286,500	286,500	-	133,023	(153,477)
Difference	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 66,192</u>	<u>\$ 66,192</u>

Budgetary amendments were necessary for minor adjustments in wage and related fringe benefits. Legal fees in conjunction with a lawsuit required an additional budget amendment. A construction project required additional funding and a budget amendment.

Capital Assets and Debt Administration

The City's investment in capital assets for its governmental and business type activities as of June 30, 2006 amounts to \$51,403,227, net of accumulated depreciation. This investment in capital assets includes land, buildings and improvements, machinery and equipment, and infrastructure.

The major capital asset additions included 10th Avenue road construction and various resurfacing projects. The capital asset additions for infrastructure in the government activities were financed by a bond issue authorized specifically for street construction, federal grants, and General Fund reserves. The capital asset additions to business type activities for infrastructure on the water and sewer systems were financed by user fees.

CITY OF MENOMINEE, MICHIGAN

Management's Discussion and Analysis

For the Year Ended June 30, 2006

Long Term Debt. At the end of the 2006 fiscal year the City of Menominee had total bonded debt outstanding of \$8,579,778. Of this amount, \$4,967,052 comprised debt backed by the full faith and credit of the government and \$3,612,726 represents bonds secured by specified revenue sources (i.e., revenue bonds).

The City maintains an A- bond rating by Moody's for both its general obligation debt and for the revenue bonds for the Wastewater Treatment Utility.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10% of its total state equalized value. The current debt limitation for the City of Menominee is \$19,694,720 which is significantly in excess of the City's outstanding general obligation debt of \$4,967,052.

NEXT YEAR'S BUDGETS AND RATES

State Shared Revenue contributes approximately 25% of the General Fund revenues for the City of Menominee. For the 2007 fiscal year, the City expects this revenue to remain about the same or to decrease slightly from the 2006 revenue.

Over 50% of the City's General Fund revenues are from general property tax levies. The tax rate has remained relatively unchanged the last few years. City management expects the current tax rate to remain relatively stable.

The 2007 General Fund budget includes the use of undesignated fund balance of \$353,499, which the City expects to reduce during the year.

In the City Business-type Fund, the Water Utility and Wastewater Treatment Utility have increased their rates 3% for the 2006 fiscal year. The flat charge has been increased and reallocated so that a greater percentage is shifted to the Water Treatment Utility. This will enhance the Water Treatment Utility's net income.

Request for Information

The financial report is designed to provide a general overview of the City of Menominee's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in the report, or requests for additional financial information, should be addressed to Menominee City Clerk/Treasurer, 2511 Tenth Street, Menominee, Michigan 49858.

BASIC FINANCIAL STATEMENTS

CITY OF MENOMINEE, MICHIGAN

Statement of Net Assets

As of June 30, 2006

	Governmental Fund Types		
	Governmental Activities	Business Type Activities	Total
ASSETS:			
Cash	\$ 360,628	\$ 1,391,901	\$ 1,752,529
Investments	386,892	-	386,892
Receivables - Net	2,360,871	741,382	3,102,253
Internal Balances	385,220	(356,028)	29,192
Inventories and Prepaid Items	388,046	130,518	518,564
Deferred Charges	74,691	42,437	117,128
Restricted Cash	404,246	966,092	1,370,338
Restricted Investments	1,922,124	-	1,922,124
Capital Assets, Net of Depreciation	29,306,413	22,096,814	51,403,227
TOTAL ASSETS	35,589,131	25,013,116	60,602,247
LIABILITIES:			
Accounts Payable	180,544	3,368	183,912
Accrued and Other Liabilities	327,544	74,726	402,270
Deferred Revenue	126,890	321,249	448,139
Noncurrent Liabilities:			
Due Within One Year	885,594	208,681	1,094,275
Due in More Than One Year	4,340,790	3,404,045	7,744,835
TOTAL LIABILITIES	5,861,362	4,012,069	9,873,431
NET ASSETS:			
Invested in Capital Assets, Net of Related Debt	24,339,362	18,526,525	42,865,887
Restricted:			
Debt Service	169,911	504,418	674,329
Plant Replacement	-	461,674	461,674
Construction	1,418,775	-	1,418,775
Permanent Fund	1,067,431	-	1,067,431
Unrestricted	2,732,290	1,508,430	4,240,720
TOTAL NET ASSETS	\$ 29,727,769	\$ 21,001,047	\$ 50,728,816

See Accompanying Notes

CITY OF MENOMINEE, MICHIGAN

Statement of Activities
For the Year Ended June 30, 2006

		Program Revenues		
		Charges for	Operating	Capital
	Expenses	Services	Grants and Contributions	Grants and Contributions
FUNCTIONS/PROGRAMS:				
Governmental Activities:				
General Government	\$ 903,922	\$ 136,575	\$ 37,047	\$ -
Public Safety	2,720,622	77,499	7,243	-
Public Works	2,101,172	27,825	779,001	591,779
Culture and Recreation	1,061,967	256,048	100,295	588,098
Other	416,522	-	194,048	-
Interest and Fiscal Charges	201,583	-	-	-
Total Governmental Activities	7,405,788	497,947	1,117,634	1,179,877
BUSINESS-TYPE ACTIVITIES:				
Water Treatment	937,449	881,572	-	-
Wastewater Treatment	1,141,641	1,295,911	-	-
Marina	525,948	558,789	-	-
River Park	99,197	89,809	-	-
Industrial Aid	-	3,000	-	-
Total Business-Type Activities	2,704,235	2,829,081	-	-
TOTAL ACTIVITIES	\$ 10,110,023	\$ 3,327,028	\$ 1,117,634	\$ 1,179,877

GENERAL REVENUES:

Property Taxes, Levied for General Purposes
Property Taxes, Levied for Debt Service
Property Taxes, Levied for Streets
State and Federal Aids Not Restricted to Specific Functions
Interest and Investment Earnings
Gain on Repossession of Asset
Other

Total General Revenues

Transfer between Governmental and Business-Type Activities

CHANGE IN NET ASSETS

NET ASSETS - BEGINNING OF YEAR, AS PREVIOUSLY REPORTED

CORRECTION TO RESTATE CAPITAL ASSETS

NET ASSETS - BEGINNING OF YEAR, AS RESTATED

NET ASSETS - END OF YEAR

See Accompanying Notes

Net (Expense) Revenue And Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
\$ (730,300)	\$ -	\$ (730,300)
(2,635,880)	-	(2,635,880)
(702,567)	-	(702,567)
(117,526)	-	(117,526)
(222,474)	-	(222,474)
(201,583)	-	(201,583)
(4,610,330)	-	(4,610,330)
-	(55,877)	(55,877)
-	154,270	154,270
-	32,841	32,841
-	(9,388)	(9,388)
-	3,000	3,000
-	124,846	124,846
(4,610,330)	124,846	(4,485,484)
3,030,730	-	3,030,730
99,777	-	99,777
502,712	-	502,712
1,175,004	-	1,175,004
156,844	94,841	251,685
-	29,702	29,702
460,834	-	460,834
5,425,901	124,543	5,550,444
200,000	(200,000)	-
1,015,571	49,389	1,064,960
27,379,529	20,951,658	48,331,187
1,332,669	-	1,332,669
28,712,198	20,951,658	49,663,856
<u>\$ 29,727,769</u>	<u>\$ 21,001,047</u>	<u>\$ 50,728,816</u>

See Accompanying Notes

CITY OF MENOMINEE, MICHIGAN

Balance Sheet
Governmental Funds
June 30, 2006

	General Fund	Major Street	Local Street
ASSETS:			
Cash and Cash Equivalents	\$ 117,783	\$ 5,653	\$ 5,157
Investments	-	-	-
Receivables - Net	110,492	54,790	36,378
Due From Other Funds	903,691	300,243	193,319
Receivable From Other Governments	224,284	86,624	31,468
Inventories and Prepaid Items	239,048	-	-
TOTAL ASSETS	\$ 1,595,298	\$ 447,310	\$ 266,322
LIABILITIES:			
Accounts Payable	\$ 67,419	\$ 86,585	\$ -
Accrued Payroll	46,323	-	-
Due to Other Funds	428,192	183,063	108,373
Payable to Other Governments	1,695	-	-
Deferred Revenue	77,850	54,789	36,378
Total Liabilities	621,479	324,437	144,751
FUND BALANCES:			
Reserved	245,041	-	-
Unreserved:			
Designated	277,793	-	-
Undesignated	450,985	122,873	121,571
Total Fund Balances	973,819	122,873	121,571
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,595,298	\$ 447,310	\$ 266,322

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Deferred revenue reported as a liability on the balance sheet is recognized as revenue on the statement of activities and has been removed from the statement of net assets.

Some liabilities, including bonds and notes payable, are not due and payable in the current period and therefore are not reported in the funds.

NET ASSETS OF GOVERNMENTAL ACTIVITIES

Spies Field Improvement Project	Street Construction	Other Governmental Funds	Total Governmental Funds
\$ 21,220	\$ 383,026	\$ 232,035	\$ 764,874
-	679,180	1,629,836	2,309,016
240,649	-	1,288,895	1,731,204
200,000	264,440	213,418	2,075,111
46,043	165,433	75,815	629,667
-	-	148,998	388,046
<u>\$ 507,912</u>	<u>\$ 1,492,079</u>	<u>\$ 3,588,997</u>	<u>\$ 7,897,918</u>
\$ 15,000	\$ -	\$ 11,540	\$ 180,544
-	-	5,631	51,954
436,536	22,746	510,981	1,689,891
-	106,934	85,826	194,455
-	-	401,839	570,856
<u>451,536</u>	<u>129,680</u>	<u>1,015,817</u>	<u>2,687,700</u>
56,376	1,362,399	1,314,387	2,978,203
-	-	-	277,793
-	-	1,258,793	1,954,222
<u>56,376</u>	<u>1,362,399</u>	<u>2,573,180</u>	<u>5,210,218</u>
<u>\$ 507,912</u>	<u>\$ 1,492,079</u>	<u>\$ 3,588,997</u>	
			29,306,413
			443,966
			(5,232,828)
			<u>\$ 29,727,769</u>

See Accompanying Notes

CITY OF MENOMINEE, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
For the Year Ended June 30, 2006

	General Fund	Major Street	Local Street
REVENUES:			
Property Taxes	\$ 3,030,730	\$ 159,217	\$ -
Federal Grants	24,047	584,900	-
State Grants	7,243	557,381	190,578
State Shared Revenue	1,206,046	-	-
Donations	-	-	-
Licenses and Permits	122,688	-	-
Fines and Forfeitures	31,805	-	-
Interest and Rentals	74,961	-	-
Charges For Services	2,500	-	-
Other Revenues	298,702	14,551	7,448
TOTAL REVENUES	4,798,722	1,316,049	198,026
EXPENDITURES:			
Current:			
General Government	865,667	-	-
Public Safety	2,427,679	-	-
Highways, Streets and Bridges	174,927	438,726	246,530
Sanitation	415,221	-	-
Culture and Recreation	342,047	-	-
Other	108,813	-	-
Capital Outlay	167,035	877,965	18,327
Debt Service:			
Principal Retirement	126,764	-	-
Interest and Fiscal Charges	-	-	-
TOTAL EXPENDITURES	4,628,153	1,316,691	264,857
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	170,569	(642)	(66,831)
OTHER FINANCING SOURCES (USES):			
Proceeds From Long Term Debt	-	-	-
Operating Transfers In	-	303,898	133,023
Operating Transfers (Out)	(483,875)	(257,305)	-
TOTAL OTHER FINANCING SOURCES (USES)	(483,875)	46,593	133,023
NET CHANGE IN FUND BALANCES	(313,306)	45,951	66,192
FUND BALANCES - BEGINNING OF YEAR	1,287,125	76,922	55,379
FUND BALANCES - END OF YEAR	\$ 973,819	\$ 122,873	\$ 121,571

Spies Field Improvement Project	Street Construction	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 431,336	\$ 3,621,283
132,935	-	-	741,882
190,567	-	122,939	1,068,708
-	-	7,449	1,213,495
264,596	-	-	264,596
-	-	-	122,688
-	-	70,120	101,925
3,474	25,236	49,700	153,371
-	-	112,313	114,813
-	-	245,631	566,332
591,572	25,236	1,039,488	7,969,093
-	-	-	865,667
-	-	184,085	2,611,764
-	-	-	860,183
-	-	-	415,221
-	-	522,923	864,970
37	1,649	474,653	585,152
1,594,239	-	69,313	2,726,879
-	-	415,000	541,764
-	-	169,865	169,865
1,594,276	1,649	1,835,839	9,641,465
(1,002,704)	23,587	(796,351)	(1,672,372)
600,000	-	-	600,000
300,000	-	742,821	1,479,742
-	(307,792)	(230,770)	(1,279,742)
900,000	(307,792)	512,051	800,000
(102,704)	(284,205)	(284,300)	(872,372)
159,080	1,646,604	2,857,480	6,082,590
\$ 56,376	\$ 1,362,399	\$ 2,573,180	\$ 5,210,218

See Accompanying Notes

CITY OF MENOMINEE, MICHIGAN

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances —
Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2006

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENT FUNDS \$ (872,372)

Amounts reported for governmental activities in the statement of net assets
are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported in the funds.

Depreciation Expense	(1,007,843)
Capital Outlay	2,726,879

Special assessments are expected to be collected over several
years, so they are not available to pay for current year expenditures
and are not reported in the funds.

266,299

Some liabilities, including bonds and notes payable, are not due and payable
in the current period and therefore are not reported in the funds.

Accrued Interest	(17,814)
Amortization of Bond Issuance Costs	(14,202)
Proceeds from Long-Term Debt	(600,000)
Debt Service-Principal	541,764
Accrued Vacation and Sick Leave	<u>(7,140)</u>

CHANGE IN NET ASSETS - GOVERNMENTAL ACTIVITIES \$ 1,015,571

CITY OF MENOMINEE, MICHIGAN

Statement of Net Assets

Proprietary Funds

As of June 30, 2006

	Water Utility	Wastewater Utility	Marina
Current Assets:			
Cash and Cash Equivalents	\$ 116,355	\$ 236,384	\$ 747,822
Receivables - Net	325,067	416,315	-
Due From Other Funds	-	44,948	-
Inventories	77,771	-	-
Prepaid Items	22,142	30,605	-
Total Current Assets	541,335	728,252	747,822
Noncurrent Assets:			
Restricted Cash and Investments	153,135	812,957	-
Unamortized Debt Discount and Expenses	-	14,900	27,537
Capital Assets, Net of Depreciation	8,841,211	10,495,681	1,653,731
Total Noncurrent Assets	8,994,346	11,323,538	1,681,268
Total Assets	9,535,681	12,051,790	2,429,090
CURRENT LIABILITIES:			
Accounts Payable	-	3,035	-
Accrued Expense	15,498	47,020	11,120
Due to Other Funds	72,970	141,001	200,000
Deferred Revenue	17,036	52,896	251,317
Current Portion of Noncurrent Liabilities	-	-	-
Total Current Liabilities	105,504	243,952	462,437
NONCURRENT LIABILITIES:			
Bonds, Notes and Loans Payable	97,639	2,570,087	945,000
Total Liabilities	203,143	2,814,039	1,407,437
NET ASSETS:			
Invested in Capital Assets, Net of Related Debt	8,743,572	7,940,494	736,268
Restricted For Debt Service	-	504,418	-
Restricted For Capital Projects	153,135	308,539	-
Unrestricted	435,831	484,300	285,385
TOTAL NET ASSETS	\$ 9,332,538	\$ 9,237,751	\$ 1,021,653

See Accompanying Notes

Other Enterprise Funds	Total Proprietary Funds
\$ 291,340	\$ 1,391,901
-	741,382
18,944	63,892
-	77,771
-	52,747
<u>310,284</u>	<u>2,327,693</u>
-	966,092
-	42,437
1,106,191	22,096,814
<u>1,106,191</u>	<u>23,105,343</u>
<u>1,416,475</u>	<u>25,433,036</u>
333	3,368
1,088	74,726
5,949	419,920
-	321,249
-	-
<u>7,370</u>	<u>819,263</u>
-	3,612,726
<u>7,370</u>	<u>4,431,989</u>
1,106,191	18,526,525
-	504,418
-	461,674
302,914	1,508,430
<u>\$ 1,409,105</u>	<u>\$ 21,001,047</u>

See Accompanying Notes

CITY OF MENOMINEE, MICHIGAN
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2006

	Water Utility	Wastewater Utility	Marina
OPERATING REVENUES:			
Charges For Services	\$ 871,203	\$ 1,278,277	\$ 558,789
Hydrant Rental	2,722	-	-
Other Revenues	7,647	17,634	-
Total Operating Revenues	<u>881,572</u>	<u>1,295,911</u>	<u>558,789</u>
OPERATING EXPENSES:			
Personal Services	187,170	136,982	-
Contractual Services	260,008	367,998	343,924
Utilities	84,405	146,368	-
Repairs and Maintenance	34,308	9,901	-
Other Supplies and Expenses	28,475	38,223	850
Depreciation	340,066	325,149	133,586
Total Operating Expenses	<u>934,432</u>	<u>1,024,621</u>	<u>478,360</u>
OPERATING INCOME (LOSS)	<u>(52,860)</u>	<u>271,290</u>	<u>80,429</u>
NON-OPERATING REVENUE (EXPENSES):			
Interest and Investment Revenue	12,316	57,152	16,424
Interest Expense	(3,017)	(117,020)	(47,588)
Gain on Repossession of Asset	-	-	-
Total Non-operating Revenue (Expenses)	<u>9,299</u>	<u>(59,868)</u>	<u>(31,164)</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS	<u>(43,561)</u>	<u>211,422</u>	<u>49,265</u>
CAPITAL CONTRIBUTIONS	<u>-</u>	<u>-</u>	<u>(200,000)</u>
CHANGE IN NET ASSETS	<u>(43,561)</u>	<u>211,422</u>	<u>(150,735)</u>
NET ASSETS - BEGINNING OF YEAR	<u>9,376,099</u>	<u>9,026,329</u>	<u>1,172,388</u>
NET ASSETS - END OF YEAR	<u><u>\$ 9,332,538</u></u>	<u><u>\$ 9,237,751</u></u>	<u><u>\$ 1,021,653</u></u>

See Accompanying Notes

Other Enterprise Funds	Total Proprietary Funds
\$ -	\$ 2,708,269
-	2,722
92,809	118,090
<u>92,809</u>	<u>2,829,081</u>
34,267	358,419
-	971,930
16,520	247,293
4,552	48,761
9,897	77,445
33,961	832,762
<u>99,197</u>	<u>2,536,610</u>
<u>(6,388)</u>	<u>292,471</u>
8,949	94,841
-	(167,625)
29,702	29,702
<u>38,651</u>	<u>(43,082)</u>
32,263	249,389
-	(200,000)
32,263	49,389
1,376,842	20,951,658
<u>\$ 1,409,105</u>	<u>\$ 21,001,047</u>

See Accompanying Notes

CITY OF MENOMINEE, MICHIGAN

Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2006

	Water Utility	Wastewater Utility
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts From Customers	\$ 880,890	\$ 1,437,479
Payments to Suppliers	(157,663)	(257,113)
Payments to Contractors	(260,008)	(367,998)
Payment to Employees	(187,890)	(136,483)
Internal Activity - Receipts From Other Funds	(98,938)	(630,824)
Net Cash From Operating Activities	<u>176,391</u>	<u>45,061</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital Contributions	-	-
Purchases of Capital Assets	(232,883)	(194,307)
Repossession of Capital Assets	-	-
Principal and Interest Paid on Capital Debt	(20,390)	(475,602)
Other Receipts	-	3,175
Net Cash From Capital and Related Financing Activities	<u>(253,273)</u>	<u>(666,734)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest Income	12,316	57,152
Net Cash From Investing Activities	<u>12,316</u>	<u>57,152</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(64,566)	(564,521)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>334,056</u>	<u>1,613,862</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 269,490</u></u>	<u><u>\$ 1,049,341</u></u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating Income (Loss)	\$ (52,860)	\$ 271,290
Adjustments to Reconcile Operating Income (Loss) to Net Cash From Operating Activities:		
Depreciation	340,066	325,149
Changes in Non-Cash Components of Working Capital:		
Accounts Receivable	(883)	147,908
Due From Other Funds	112	(6,575)
Inventories	(9,332)	-
Prepaid Items	(630)	(1,088)
Accounts Payable	(513)	(61,533)
Accrued Expenses	(720)	499
Due to Other Funds	(99,050)	(624,249)
Deferred Revenues	201	(6,340)
NET CASH FROM OPERATING ACTIVITIES	<u><u>\$ 176,391</u></u>	<u><u>\$ 45,061</u></u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS:		
Unrestricted Cash and Investments	\$ 116,355	\$ 236,384
Restricted Cash and Investments	153,135	812,957
TOTAL CASH AND CASH EQUIVALENTS	<u><u>\$ 269,490</u></u>	<u><u>\$ 1,049,341</u></u>

See Accompanying Notes

Marina	Other Enterprise Funds	Total Proprietary Funds
\$ 555,662	\$ 92,809	\$ 2,966,840
(850)	(33,764)	(449,390)
(343,924)	-	(971,930)
(605)	(34,076)	(359,054)
198,950	11,754	(519,058)
<u>409,233</u>	<u>36,723</u>	<u>667,408</u>
(200,000)	-	(200,000)
-	-	(427,190)
-	(28,484)	(28,484)
(102,588)	-	(598,580)
<u>2,504</u>	<u>-</u>	<u>5,679</u>
<u>(300,084)</u>	<u>(28,484)</u>	<u>(1,248,575)</u>
16,424	8,949	94,841
<u>16,424</u>	<u>8,949</u>	<u>94,841</u>
125,573	17,188	(486,326)
<u>622,249</u>	<u>274,152</u>	<u>2,844,319</u>
<u>\$ 747,822</u>	<u>\$ 291,340</u>	<u>\$ 2,357,993</u>
\$ 80,429	\$ (6,388)	\$ 292,471
133,586	33,961	832,762
-	-	147,025
-	14,901	8,438
-	-	(9,332)
-	-	(1,718)
-	(2,795)	(64,841)
(605)	191	(635)
198,950	(3,147)	(527,496)
(3,127)	-	(9,266)
<u>\$ 409,233</u>	<u>\$ 36,723</u>	<u>\$ 667,408</u>
\$ 747,822	\$ 291,340	\$ 1,391,901
-	-	966,092
<u>\$ 747,822</u>	<u>\$ 291,340</u>	<u>\$ 2,357,993</u>

See Accompanying Notes

CITY OF MENOMINEE, MICHIGAN

Statement of Net Assets

Fiduciary Funds

As of June 30, 2006

	Employee Trust Funds	Agency Funds
ASSETS:		
Cash and Cash Equivalents	\$ 181,459	\$ 26,885
Investments at Fair Value:		
Corporate Stocks	2,126,255	-
Other Investments	7,154,347	-
Total Investments	9,280,602	-
Taxes Receivable	-	37,639
Total Assets	\$ 9,462,061	\$ 64,524
LIABILITIES:		
Due to Other Funds	\$ 2,118	\$ 27,074
Due to Other Governments	-	37,450
Total Liabilities	2,118	64,524
NET ASSETS:		
Held in Trust For Employees' Retirement System	9,457,053	-
Reserved For Employees' Benefits	2,890	-
Total Net Assets	9,459,943	-
TOTAL LIABILITIES AND NET ASSETS	\$ 9,462,061	\$ 64,524

See Accompanying Notes

CITY OF MENOMINEE, MICHIGAN

Statement of Changes in Net Assets

Fiduciary Funds

For the Year Ended June 30, 2006

	Employee Trust Funds
ADDITIONS:	
Contributions:	
Employees	\$ 85,753
Employer	104,152
Investment Revenues	567,735
Other	5,499
Total Additions	763,139
DEDUCTIONS:	
Annuities	428,396
Benefits	8,567
Total Deductions	436,963
CHANGE IN NET ASSETS	326,176
NET ASSETS - BEGINNING OF YEAR	9,135,885
NET ASSETS - END OF YEAR	\$ 9,462,061

See Accompanying Notes

CITY OF MENOMINEE, MICHIGAN
Notes To the Basic Financial Statements
For the Year Ended June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

This summary of significant accounting policies of the City is presented to assist in understanding the City's financial statements. The financial statements and notes are representations of the City's management who is responsible for the integrity and objectivity of the financial statements. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

REPORTING ENTITY

The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: public safety, public works, development services, public health and welfare, culture, recreation, water and wastewater.

The City's basic financial statements include the accounts of all City operations. In accordance with generally accepted accounting principles (GAAP), the financial statements are required to include the City and any separate component units that have a significant operational or financial relationship with the City. The City has not identified any component units that are required to be included in the financial statements in accordance with standards established in GASB Statements No. 14 and 39.

RELATED ORGANIZATIONS

City officials are also responsible for appointing a majority of the board members for the Housing Authority of the City of Menominee, but the City's accountability for this organization does not extend beyond making the appointments. Therefore, this organization is not included in the City's reporting entity.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Governmental funds include general, special revenue, capital project, and debt service funds. Proprietary funds include enterprise funds and internal service funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

CITY OF MENOMINEE, MICHIGAN
Notes To the Basic Financial Statements
For the Year Ended June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

FUND FINANCIAL STATEMENTS

Fund financial statements of the reporting entity are organized into individual funds each of which are considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts which constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses.

Funds are organized as major funds or non-major funds within the governmental and proprietary statements. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type and
- b. The same element that met the 10 percent criterion in (a) is at least 5 percent of the corresponding element total for all governmental and enterprise funds combined.
- c. In addition, any other governmental fund that the City believes is particularly important to financial statement users may be reported as a major fund.

The City reports the following major governmental funds:

General Fund – This is the City’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Major Street Fund – Accounts for revenues and expenditures in connection with the street system designated as major streets by the State of Michigan. This fund is required under state law.

Local Street Fund – Accounts for revenues and expenditures in connection with the street system designated as local streets by the State of Michigan. This fund is required under state law.

Spies Field Improvement Project Fund – Accounts for the reconstruction of Spies Field.

Street Construction Fund – Accounts for the reconstruction of streets.

The City reports the following major proprietary funds:

The Water Utility Fund – Accounts for the City’s provision of water service to city residents, business entities and public authorities.

The Wastewater Treatment Utility Fund – Accounts for the City’s provision of wastewater treatment service to city residents, business entities and public authorities.

The Marina Fund – Accounts for the operation of the City’s marina.

CITY OF MENOMINEE, MICHIGAN
Notes To the Basic Financial Statements
For the Year Ended June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

FUND FINANCIAL STATEMENTS (Continued)

Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support City programs. The reporting focus is on net assets and changes in net assets. These assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government. For that reason, these funds are not incorporated into the government-wide statements.

The City reports the following trustee funds:

Police and Fire Retirement Fund – Accounts for investments held for funding police and fire department employees' retirement benefits.

Employee Flexible Benefits Fund – Accounts for employee contributions and payouts for employees enrolled in the City's flexible benefits plan.

The City reports the following agency fund:

The Tax Collection Fund – Accounts for property tax collections and distributions.

MEASUREMENT FOCUS AND BASIS ACCOUNTING

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's enterprise funds and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions and 3) capital grants and contributions. Internally dedicated resources, as well as all tax revenues, are reported as general revenues rather than as program revenues.

CITY OF MENOMINEE, MICHIGAN
Notes To the Basic Financial Statements
For the Year Ended June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

MEASUREMENT FOCUS AND BASIS ACCOUNTING (Continued)

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for services. Operating expenses for enterprise funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

CASH AND INVESTMENTS

Cash deposits consist of demand and time deposits with financial institutions carried at cost. Investments are stated at market value.

For purposes of the statement of cash flows, cash and investments having a maturity of three months or less are considered to be cash equivalents.

ACCOUNTS RECEIVABLE

Accounts receivable are recorded net of allowances for doubtful accounts.

INVENTORIES

Inventories of governmental and proprietary fund types are recorded at cost, which approximates market, using the first-in first-out method of valuation. The cost is recorded as an expenditure at the time individual inventory items are consumed.

PREPAID ITEMS

Prepaid balances are for payments made by the City in the current year to provide services occurring in the subsequent fiscal year, and the reserve for prepaid items has been recorded to signify that a portion of fund balance is not available for other subsequent expenditures.

CITY OF MENOMINEE, MICHIGAN
Notes To the Basic Financial Statements
For the Year Ended June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

CAPITAL ASSETS

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of \$5,000 or higher and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Property, plant and equipment of the City is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>	
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Buildings	40 Years	50 Years
Improvements Other Than Building	20 Years	15 – 50 Years
Equipment	15 Years	3 – 10 Years
Infrastructure	50 Years	-

DEFERRED REVENUE

The City reports deferred revenue on its statement of net assets and balance sheet. Deferred revenue arises when potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Deferred revenue also arises when resources are received before the City has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the City has a legal claim to the resources, the liability for deferred revenue is removed as a liability and revenue is recognized.

COMPENSATED ABSENCES

Under terms of employment, employees are granted sick leave and vacations in varying amounts, and are allowed to accrue unused sick leave and vacation time according to specific policies for different departments and unions. A liability for these accrued compensated absences is reported in the government-wide and proprietary funds financial statements. The liability is determined on the basis of current salary rates as of June 30, 2006, although payments for the accrued compensated absences will be made at rates in effect when the benefits are used.

CITY OF MENOMINEE, MICHIGAN
Notes To the Basic Financial Statements
For the Year Ended June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

LONG-TERM OBLIGATIONS

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or business-type activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

INTERFUND RECEIVABLES AND PAYABLES

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" and "due to other funds" on the balance sheet. Noncurrent portions of the interfund receivables for the governmental funds are offset by a reservation of fund balance since they do not constitute expendable available financial resources and therefore are not available for appropriation.

The amount reported on the statement of net assets for internal balances represents the residual balance outstanding between the governmental activities and business type activities.

INTERFUND TRANSACTIONS

During the course of normal operations, the City has various transactions between funds, including expenditures and transfers of resources to provide services, construct assets and service debt. The governmental funds generally record such transactions as operating transfers if within governmental funds. Transactions between governmental and proprietary funds are usually recorded as revenues and either expenditures or expenses of the respective funds.

Fund Financial Statements

Interfund activity, if any, within and among the governmental categories is reported as follows in the fund financial statements:

- Interfund transfers – Flow of assets from one fund to another where repayment is not expected are reported as transfers in and out.

CITY OF MENOMINEE, MICHIGAN
Notes To the Basic Financial Statements
For the Year Ended June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

INTERFUND TRANSACTIONS (Continued)

Government-Wide Financial Statements

Interfund activity and balances, if any, are eliminated or reclassified in the government-wide financial statements as follows:

- Internal activities – Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide statement of activities.

EQUITY CLASSIFICATIONS

Government-Wide Statements

Equity is classified as net assets and displayed in three components.

- Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted net assets – Consists of net assets with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or, 2) law through constitutional provisions or enabling legislation.
- Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

When both restricted and unrestricted resources are available for use, it is the City’s policy to use restricted resources first, then unrestricted resources as they are needed.

Fund Financial Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved being further split between designated and undesignated.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results may differ from these estimates.

CITY OF MENOMINEE, MICHIGAN
Notes To the Basic Financial Statements
For the Year Ended June 30, 2006

NOTE 2 - CASH AND INVESTMENTS:

Cash and investments as of June 30, 2006 are classified in the accompanying financial statements as follows:

Statement of Net Assets:	
Cash	\$ 1,752,530
Investments	386,892
Restricted Cash and Investments	3,292,462
Fiduciary Funds:	
Cash	208,344
Investments	<u>9,280,602</u>
Total Cash and Investments	<u>\$ 14,920,830</u>

Michigan Compiled Laws, Section 129.91, authorizes the City to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The City is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The City Council has adopted a formal investment policy in accordance with Public Act 196 of 1997. The policy allows all deposits and investments authorized by the above statute, with the following additional restrictions:

- Commercial paper must be rated at the time of purchase within the highest classification established by not less than two standard rating services.
- Mutual Funds must be registered under the Investment Company Act of 1940 and maintain a \$1.00 per share net asset value.

In addition, the policy allows investment in stock, but only for Fund 732, the Police and Fire Retirement Fund, as set forth in Michigan Act 314, PA 1965, and MSA Section 3.98 (114). Donated stock may be held in any fund, in accordance with the wishes of the donor.

CUSTODIAL CREDIT RISK

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Custodial risk for *investments* is the risk that, in the event of the failure of a counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The State statutes and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial risks for deposits or investments.

CITY OF MENOMINEE, MICHIGAN
Notes To the Basic Financial Statements
For the Year Ended June 30, 2006

NOTE 2 – DEPOSITS AND INVESTMENTS (Continued):

CUSTODIAL CREDIT RISK (Continued)

The City maintains its cash accounts at several financial institutions. The balances, at times, may exceed the Federal Deposit Insurance Corporation (FDIC) insured limit of \$100,000 per financial institution. Management acknowledges the possibility of risk in this arrangement. However, the size and longevity of the depository institutions minimizes such risk.

The following is a summary of cash deposits as of June 30, 2006:

Fully Insured Deposits	\$ 603,646
Collateralized with Securities Held by the Pledging Financial Institution's Trust Department or Agent, but not in the City's Name	515,708
Uncollateralized	<u>3,729,146</u>
Total	<u>\$ 4,848,500</u>

Investments in the following investment types were held by the same counterparty that was used by the City to buy the securities:

Investment Type:	
Federal Agency Securities	\$ 581,036
Mutual Funds	<u>6,671,618</u>
	<u>\$ 7,252,654</u>

INTEREST RATE RISK

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

CITY OF MENOMINEE, MICHIGAN
Notes To the Basic Financial Statements
For the Year Ended June 30, 2006

NOTE 2 – DEPOSITS AND INVESTMENTS (Continued):

INTEREST RATE RISK (Continued):

Information about the sensitivity of the fair values of the City's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity:

	<u>Total</u>	<u>12 Months Or Less</u>	<u>13 to 24 Months</u>	<u>25 to 60 Months</u>	<u>More Than 60 Months</u>
Investment Type:					
U.S. Treasury Notes	\$ 421,470	\$ 113,338	\$ 29,159	\$ 71,723	\$ 207,250
Federal Agency Securities	581,036	149,390	125,805	305,841	
GNMA	7,088			3,195	3,893
	<u>\$ 1,009,594</u>	<u>\$ 262,728</u>	<u>\$ 154,964</u>	<u>\$ 380,759</u>	<u>\$ 211,143</u>

INVESTMENTS WITH FAIR VALUES HIGHLY SENSITIVE TO INTEREST RATE FLUCTUATIONS

Certain investments are highly sensitive to interest rate fluctuations, to a greater degree than already indicated in the information provided above. The City's investments in Federal Agency Securities (Federal Home Loan Bank and Federal National Mortgage Association) are backed by mortgages, which are subject to early payment in periods of declining interest rates. The resultant reduction in expected total cash flows affects the fair value of these securities and makes the fair values of these securities highly sensitive to changes in interest rates.

CREDIT RISK

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the City's investment policy and the actual rating as of year end for each investment type.

	<u>Total</u>	<u>Minimum Legal Rating</u>	<u>Rating as of Year End AAA</u>
Investment Type:			
U.S. Treasury Notes	\$ 421,470	N/A	Exempt
GNMA	7,088	N/A	Exempt
Federal Agency Securities	581,036	AAA	AAA
Mutual Funds	6,671,618	AAA	AAA
Common Stock	2,624,330	N/A	No Rating
	<u>\$ 10,305,542</u>		

CITY OF MENOMINEE, MICHIGAN
Notes To the Basic Financial Statements
For the Year Ended June 30, 2006

NOTE 2 – DEPOSITS AND INVESTMENTS (Continued):

CONCENTRATION OF CREDIT RISK

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer. There are no investments in any one issuer (other than U.S. Treasury securities, mutual funds and money market funds) that represent 5% or more of the City's total investments.

Investments in any one issuer that represent 5% or more of total investments by reporting unit are as follows:

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
Cemetery Perpetual Care Fund:		
Federal Home Loan Bank	Federal Agency Securities	\$ 225,336
FNMA	Federal Agency Securities	287,647
Federal Farm Credit	Federal Agency Securities	68,053

NOTE 3 - PROPERTY TAXES:

Property tax is levied on each July 1st on the taxable valuation of property (as defined by State statutes) located in the City as of the preceding December 31.

Property taxes are recorded in the year levied as receivables and recognized as revenue. Real property taxes not collected by February 28 are turned over to the county for collection. The county pays the City for these delinquent taxes within 60 days. Delinquent personal property taxes are recorded as deferred revenue until collected or written off. In addition to property taxes for the City, taxes are collected and remitted to state and county governments as well as local school districts.

The 2005 taxable valuation of the City totaled \$151 million, on which ad valorem taxes levied consisted of 18.16 mills for the City operating purposes, .9952 mills for City street and road repair, and 2.66 mills for debt service, raising \$2.9 million for City operating purposes, \$159,217 for City street and road repair, and \$431,336 for debt service. These amounts are recognized in the respective General, Major Street and Debt Service Funds financial statements as taxes receivable-current and as tax revenue.

CITY OF MENOMINEE, MICHIGAN
Notes To the Basic Financial Statements
For the Year Ended June 30, 2006

NOTE 4 – RECEIVABLES:

Receivables as of year-end for the government's individual major and nonmajor funds, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General Fund</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Spies Field</u>
Taxes	\$ 27,376	\$ -	\$ -	\$ -
Accounts	25,199	-	-	240,649
Special Assessments	50,474	54,790	36,378	-
Intergovernmental	224,284	86,624	31,468	46,043
Interest and Other	7,443	-	-	-
Less: Allowance for Doubtful Accounts	-	-	-	-
Net Receivables	<u>\$ 334,776</u>	<u>\$ 141,414</u>	<u>\$ 67,846</u>	<u>\$ 286,692</u>

	<u>Street Construction</u>	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Aggregate Nonmajor Funds</u>
Taxes	\$ -	\$ -	\$ -	\$ -
Accounts	-	275,854	334,632	1,406,577
Special Assessments	-	57,383	87,954	172,165
Intergovernmental	165,433	-	-	75,815
Interest and Other	-	-	-	-
Less: Allowance for Doubtful Accounts	-	(8,170)	(6,271)	(289,847)
Net Receivables	<u>\$ 165,433</u>	<u>\$ 325,067</u>	<u>\$ 416,315</u>	<u>\$ 1,364,710</u>

	<u>Aggregate Fiduciary Funds</u>	<u>Total</u>
Taxes	\$ 37,639	\$ 65,015
Accounts	-	2,282,911
Special Assessments	-	459,144
Intergovernmental	-	629,667
Interest and Other	-	7,443
Less: Allowance for Doubtful Accounts	-	(304,288)
Net Receivables	<u>\$ 37,639</u>	<u>\$ 3,139,892</u>

CITY OF MENOMINEE, MICHIGAN
Notes To the Basic Financial Statements
For the Year Ended June 30, 2006

NOTE 4 – RECEIVABLES (Continued):

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Special Assessment	\$ 169,017	\$ -
Menominee Paper	302,325	-
MSHDA	-	86,339
Other	-	13,175
Total	<u>\$ 471,342</u>	<u>\$ 99,514</u>

Economic Development and Housing Rehabilitation Loan Receivable - The City has received grant funds for economic development and housing rehabilitation loan programs to various businesses and individuals. The City records a loan receivable when the loan has been made and funds have been disbursed.

NOTE 5 - CAPITAL ASSETS:

Capital asset balances and activity for the year ended June 30, 2006 were as follows:

	<u>Balance 7/1/2005</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 6/30/2006</u>
Governmental Activities:				
Capital Assets not being depreciated:				
Land	\$ 1,998,023	\$ -	\$ 44,510	\$ 1,953,513
Total Capital Assets not being Depreciated	<u>1,998,023</u>	<u>-</u>	<u>44,510</u>	<u>1,953,513</u>
Other Capital Assets:				
Buildings and Improvements	4,867,570	1,675,968	-	6,543,538
Infrastructure	25,696,418	1,074,444	-	26,770,862
Machinery and Equipment	4,029,279	38,454	-	4,067,733
Library Materials	1,332,669	-	-	1,332,669
Total Capital Assets being depreciated	<u>35,925,936</u>	<u>2,788,866</u>	<u>-</u>	<u>38,714,802</u>
Less Accumulated Depreciation for:				
Building and Improvements	\$ 2,341,491	\$ 205,287	\$ -	\$ 2,546,778
Infrastructure	5,404,030	554,084	-	5,958,114
Machinery and Equipment	2,608,538	248,472	-	2,857,010
Total Accumulated Depreciation	<u>10,354,059</u>	<u>1,007,843</u>	<u>-</u>	<u>11,361,902</u>
Total Capital Assets Being Depreciated, Net of Depreciation	<u>25,571,877</u>	<u>1,781,023</u>	<u>-</u>	<u>27,352,900</u>
Governmental Activities Capital Assets, Net of Accumulated Depreciation	<u>\$ 27,569,900</u>	<u>\$ 1,781,023</u>	<u>\$ 44,510</u>	<u>\$ 29,306,413</u>

CITY OF MENOMINEE, MICHIGAN
Notes To the Basic Financial Statements
For the Year Ended June 30, 2006

NOTE 5 - CAPITAL ASSETS (Continued):

	<u>Balance 7/1/2005</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 6/30/2006</u>
Business-Type Activities:				
Capital Assets not being Depreciated:				
Land	\$ 390,214	\$ 58,185	\$ -	\$ 448,399
Construction in Progress	8,488	-	-	8,488
Total Capital Assets not being Depreciated	<u>398,702</u>	<u>58,185</u>	<u>-</u>	<u>456,887</u>
Capital Assets being Depreciated:				
Water	14,617,878	232,884	-	14,850,762
Wastewater	15,791,471	194,307	-	15,985,778
Marina	2,864,086	-	-	2,864,086
River park	1,128,060	-	-	1,128,060
Subtotal	34,401,495	427,191	-	34,828,686
Less Accumulated Depreciation	<u>12,355,997</u>	<u>832,762</u>	<u>-</u>	<u>13,188,759</u>
Total Capital Assets, being Depreciated, Net of Depreciation	<u>22,045,498</u>	<u>(405,571)</u>	<u>-</u>	<u>21,639,927</u>
Business-Type Activities Capital Assets, Net of Accumulated Depreciation	<u><u>\$ 22,444,200</u></u>	<u><u>\$ (347,386)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 22,096,814</u></u>

Depreciation expense was charged to functions of the City as follows:

Governmental Activities:	
General Government	\$ 45,082
Public Safety	106,109
Public Works	669,038
Culture and Recreation	187,614
Total Depreciation Expense – Governmental Activities	<u><u>\$ 1,007,843</u></u>
Business-Type Activities:	
Water Utility	\$ 340,066
Sewer Utility	325,149
Marina	133,586
River Park	33,961
Total Depreciation Expense – Business-Type Activities	<u><u>\$ 832,762</u></u>

CITY OF MENOMINEE, MICHIGAN
Notes To the Basic Financial Statements
For the Year Ended June 30, 2006

NOTE 6 - LONG-TERM DEBT:

The following is a summary of changes in long-term obligations of the City for the year ended June 30, 2006:

	Balance 7/1/05	Increases	Decreases	Balance 6/30/06	Due Within One Year
Governmental Activities:					
Bonds and Notes Payable:					
Bonds	\$ 4,650,000	\$ -	\$ 705,000	\$ 3,945,000	\$ 435,000
Notes	526,003	600,000	103,951	1,022,052	259,806
Total	<u>5,176,003</u>	<u>600,000</u>	<u>808,951</u>	<u>4,967,052</u>	<u>694,806</u>
Other Liabilities:					
Vested Compensated Absences	234,254	198,818	173,740	259,332	190,788
Total Governmental Activities Long-Term Liabilities	<u>\$ 5,410,257</u>	<u>\$ 798,818</u>	<u>\$ 982,691</u>	<u>\$ 5,226,384</u>	<u>\$ 885,594</u>
Business-Type Activities:					
Bonds and Notes Payable:					
Bonds	\$ 3,731,000	\$ -	\$ 384,000	\$ 3,347,000	\$ 160,000
Notes	312,681	-	46,955	265,726	48,681
Total Business-Type Activities Long-Term Liabilities	<u>\$ 4,043,681</u>	<u>\$ -</u>	<u>\$ 430,955</u>	<u>\$ 3,612,726</u>	<u>\$ 208,681</u>

CITY OF MENOMINEE, MICHIGAN
Notes To the Basic Financial Statements
For the Year Ended June 30, 2006

NOTE 6 - LONG-TERM OBLIGATIONS (Continued):

Additional information on the above outstanding long-term obligations follows:

All general obligation debt is secured by the full faith and credit and unlimited taxing power of the City. General obligation debt at June 30, 2006 is comprised of the following individual issues:

	Date of Issuance	Final Maturity	Interest Rates	Original Indebtedness	Balance 06/30/06
Governmental Activities					
Long-Term Obligations:					
2001 Bonds	03/01/01	03/01/12	3.40 – 4.30%	\$ 4,500,000	\$ 3,095,000
2003 Bonds	09/04/03	09/01/16	2.25 – 4.56%	965,000	850,000
2001 Notes	09/16/01	09/15/08	5.29%	534,549	294,463
2002 Notes	08/30/02	08/30/08	4.15%	85,000	45,089
2006 Notes	02/28/05	09/15/08	3.50%	82,500	82,500
2006 Notes	07/15/05	07/15/09	3.60%	600,000	600,000
Sub-Total					<u>4,967,052</u>
Vested Compensated Absences					<u>259,332</u>
Total Governmental Activities Long-Term Obligations					<u>\$ 5,226,384</u>
Business Type Activities					
Long-Term Obligations:					
1992 Bonds	09/02/94	09/01/13	2.00%	1,520,000	\$ 600,000
1998 Bonds	09/23/98	09/01/17	4.50%	1,665,000	1,516,000
1998 Bonds	09/23/98	09/01/38	4.50%	300,000	286,000
1999 Bonds	05/01/99	05/01/16	4.20 – 5.00%	1,250,000	945,000
2002 Notes	08/30/02	08/30/10	4.45%	400,000	265,726
Total Business Type Activities Long-Term Obligations					<u>\$ 3,612,726</u>

CITY OF MENOMINEE, MICHIGAN
Notes To the Basic Financial Statements
For the Year Ended June 30, 2006

NOTE 6 - LONG-TERM OBLIGATIONS (Continued):

The above debt issues have been allocated to the City's enterprise fund and governmental funds based on the use of the proceeds. The annual principal and interest maturities are allocated as follows:

	General Long-Term Obligations		Enterprise Funds		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 694,806	\$ 188,352	\$ 208,681	\$ 148,199	\$ 903,487	\$ 336,551
2008	723,120	168,273	216,847	140,778	939,967	309,051
2009	756,825	139,253	226,110	133,105	982,935	272,358
2010	732,299	108,140	234,473	125,016	966,772	233,156
2011	535,000	76,910	247,942	116,503	782,942	193,413
2012-2016	1,425,002	114,711	868,000	462,963	2,293,002	577,674
2017-2021	100,000	2,275	347,000	318,440	447,000	320,715
2022-2026	-	-	278,000	260,415	278,000	260,415
2027-2031	-	-	344,000	192,220	344,000	192,220
2032-2036	-	-	440,000	106,785	440,000	106,785
2037-2040	-	-	201,673	13,682	201,673	13,682
	<u>\$ 4,967,052</u>	<u>\$ 797,914</u>	<u>\$ 3,612,726</u>	<u>\$ 2,018,106</u>	<u>\$ 8,579,778</u>	<u>\$ 2,816,020</u>

Estimated payments of accumulated employee benefits are not included in the above schedule.

NOTE 7- NET ASSETS/FUND BALANCES:

GOVERNMENT-WIDE STATEMENTS

Net assets reported on the government-wide statement of net assets at June 30, 2006 include the following

Invested in Capital Assets, Net of Related Debt:	
Net Capital Assets	\$ 29,306,413
Less: Related Long-Term Debt Outstanding	4,967,051
Total Invested in Capital Assets, Net of Related Debt	<u>\$ 24,339,362</u>
Restricted:	
Debt Service	\$ 169,911
Construction	1,418,775
Permanent Fund	1,067,431
Total Restricted	<u>\$ 2,656,117</u>
Unrestricted	<u>\$ 2,732,290</u>
Total Net Assets – Government-Wide Statements	<u>\$ 29,727,769</u>

CITY OF MENOMINEE, MICHIGAN
Notes To the Basic Financial Statements
For the Year Ended June 30, 2006

NOTE 7 - NET ASSETS/FUND BALANCES (Continued):

FUND STATEMENTS

Fund balances reported in the governmental funds balance sheet at June 30, 2006 are further classified as follows:

Reserved:

General Fund:

Reserved for Inventory	\$ 47,098	
Reserved for Plant-A-Tree	5,993	
Reserved for Prepaid Expenditures	191,950	
Total General Fund		\$ 245,041

Special Revenue Funds:

Reserved for Cemetery Trusts	13,128	
Reserved for Library	21,391	
Reserved for Housing Rehabilitation	42,526	
Total Special Revenue funds		77,045

Debt Service Funds:

Reserved for Street Construction Debt	39,965	
Reserved for Library Debt	129,946	
Total Debt Service Funds		169,911

Capital Projects Funds:

Spies Field Improvement Project	56,376	
Street Construction	1,362,399	
Total Capital Projects Funds		1,418,775

Permanent Fund:

Cemetery Perpetual Care Fund		1,067,431
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Total Reserved Fund Balances		<u>\$ 2,978,203</u>
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CITY OF MENOMINEE, MICHIGAN
Notes To the Basic Financial Statements
For the Year Ended June 30, 2006

NOTE 7– NET ASSETS/FUND BALANCES (Continued):

Unreserved/Designated:

General Fund:

Condemnation	\$ 2,037
Parks-Boat Launches	21,013
Swim Pier Equipment	1,100
Circle Lane	100,619
Fuel Pump	39,208
Henes Park Pavilion	7,200
Landfill Pump Management	7,000
Alleys	13,000
Recreation	10,812
Bricks	3,751
DARE Program	2,371
Flags	200
Rescue Squad	16,000
Henes Park Project	43,482
Water Tower Improvements	10,000
Total Unreserved/Designated	<u>\$ 277,793</u>

Unreserved/Undesignated:

General Fund	\$ 450,985
Major Street Fund	122,873
Local Street Fund	121,571
Other Special Revenue Funds	1,258,793
Total Unreserved/Undesignated	<u>\$ 1,954,222</u>

Total Government Funds' Fund Balance	<u>\$ 5,210,218</u>
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NOTE 8 - RETIREMENT COMMITMENTS:

City employees are covered by either the Policemen and Firemen Retirement System (PFRS) or the Municipal Employees' Retirement System (MERS).

Police and Firemen Retirement System (PFRS)

Police and Firemen Retirement System (PFRS) is a single-employer defined benefit pension plan administered by the City. The plan is accounted for as a separate pension trust fund in the City's financial statements. The PFRS is authorized and operated under state law, Act 345 of the Public Acts of 1937, as amended.